

GDYN Q1 2023 Earnings Call Recording Transcript

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Company Participants

- Leonard Livschitz, Chief Executive Officer and Director
- Anil Doradla, Chief Financial Officer
- Bin Jiang, Head of Investor Relations

Other Participants

- Joshua Siegler, Analyst, Cantor Fitzgerald
- Ryan Potter, Analyst, Citi
- Maggie Nolan, Analyst, William Blair
- Puneet Jain, Analyst, JP Morgan
- Bryan Bergin, Analyst, Cowen
- Mayank Tandon, Analyst, Needham

Bin Jiang, Head of Investor Relations

Good afternoon, and welcome to Grid Dynamics First Quarter 2023 earnings conference call. I'm Bin Jiang, Head of Investor Relations. At this time, all participants are in listen-only mode.

Joining us on the call today are CEO, Leonard Livschitz; and CFO, Anil Doradla. Following their prepared remarks, we will open the call to your questions. Please note, today's conference is being recorded.

Before we begin, I would like to remind everyone that today's discussion will contain forward-looking statements. This includes our business and financial outlook and the answers to some of your questions. Such statements are subject to the risks and uncertainties as described in the company's earnings release and other filings with the SEC.

During this call, we will discuss certain non-GAAP measures of our performance. GAAP to non-GAAP financial reconciliations and supplemental financial information are provided in the earnings press release and the 8-K filed with the SEC. You can find all the information I have just described in the Investor Relations section of our website.

With that, I'll now turn the call over to Leonard, our CEO.

Leonard Livschitz, Chief Executive Officer

Thank you, Bin. Good afternoon everyone and thank you for joining us today.

As you have seen from our results that we published a short time ago, our Q1 2023 revenue and profitability were at the high end of the expectations that we provided in February. In the current environment, I am delighted with our results. This is a testament of Grid Dynamics strength and value we bring to our clients. There were many positives in the quarter. Grid Dynamics continued to provide comprehensive partnerships with many clients. Momentum at winning new logos in the first quarter with global Tier-1 clients, meaningful contributions from our recent logo wins towards revenue, success with our geographical diversification strategy. India became one of our largest delivery countries. I



would like also to emphasize operational progress with our GigaCube strategy that will propel the company towards a billion dollar revenue. I will talk about each of these elements in my prepared remarks and Q&A.

On the macro front, our viewpoints have remained consistent since November 2022. We are in the midst of a cautionary spending environment across industry verticals. Clients are closely looking at the health of their own business and making short-term investment decisions. While this has resulted in volatility across some of our clients and industry verticals, “recession-resistant” industries continue to invest.

Despite the near term uncertainties, in many ways we view the reset across the demand environment as a significant opportunity for us. During times when customers are recalibrating their growth investments and others are seeking ways of leveraging digital transformation solutions in achieving their revenue objectives in a cost-efficient manner, Grid Dynamics adapts to the changing environment. This is something we have witnessed in previous economic cycles, and this time is no exception to that trend.

Last quarter we shared with you for the first time our GigaCube initiative. I am happy to report that during this quarter we made good progress across multiple aspects, including personnel, processes, and customers. Recently, we won business at a pharmaceutical company and a global financial services company by leveraging our expertise in the target verticals of the GigaCube initiative. As you know, GigaCube is our strategic blueprint that lays out a framework for our company towards a \$1 billion revenue. In many ways, the GigaCube is one of the most important strategic initiatives reshaping the company. It involves all parts of the organization that include sales, R&D, marketing, operations, and M&A.

At its core there are four key business drivers which are guiding our efforts:

- First, our investments in technology innovation that drive our customer’s growth and optimizes their costs
- Second, our efforts in moving from our historical 2-5-10 million dollars per customer revenue to 5-10-20 million dollar revenue model
- Third, we introduced “Follow-the-Sun’ model where engineering teams simultaneously collaborate across our three key geographies in NA, Europe, and India
- And finally Fourth, partnerships with notable cloud providers and domain specialists to drive business and larger deals.

Coming to our locations. As you all know, we have delivery locations across the globe. Our “Follow-the-Sun” strategy enables our clients to be served in an uninterrupted fashion around the clock. In India, we have been scaling our operations. Our new office in the Technology Park in Hyderabad is operational and is now staffed by employees that include from our recent acquisitions. With employees from Mutual Mobile, NextSphere Technologies, as well as our own organic expansion, India is now one of our top geographies from a headcount perspective. Furthermore, with the acquisition of NextSphere Technologies, in addition to a strong presence in Hyderabad, we now have access to a large talented pool of engineers in Chennai. As you may know, Chennai is a key automotive and manufacturing hub in India, and we expect to leverage as we expand our Manufacturing and Supply-Chain industry verticals. Additionally, our integration with Mutual Mobile is in full swing and we have started to implement synergies across engineering, operations, and other back-end functions.

We continue to ramp up hiring of engineering talents in Europe. Over the last 12 months our headcount in Poland, Serbia, and Armenia has almost tripled. Similar to our other locations, we expanded our relationships with universities and hired interns across these countries and others.

In the quarter there were several trends and I want to share with you some of the notable ones:

- Demand trends:** In the first quarter, similar to the fourth quarter, we witnessed continued budget scrutiny and demand softness across some of our clients. That said, we did see some patterns emerging across our customer base. **First**, customers are taking a closer look and reviewing their roster of IT partners. In many cases they have rationalized their relationships by cutting down on the number of partners that they work with. For a substantial number of our clients, Grid Dynamics has been nominated as the preferred vendor. **Second**, customers are increasingly diversifying their projects to the lower cost offshore locations with an ultimate mandate to preserve the engineering quality. Such trends play to our favor as we have a global delivery footprint in locations of choice for our clients. **And finally, third**, clients are increasingly focused on business critical initiatives that bring immediate results. This is the area which we are successfully partnering with our clients with our differentiated offerings.
- Logo Momentum:** We started the year strong and closed the first quarter with a total of 9 new enterprise customers at our organic business. This excludes the customers from our recent acquisitions and our commercial business. Some of the more notable ones to mention include a global sports apparel company, a US based telecommunications company, a global biotech and pharma company, a major outdoor lifestyle company, and an enterprise edge-to-cloud convergence company. We are very proud of our achievements and this is a testament of our differentiation and value we bring to our customers.
- Technology Highlights:** Innovative technology has always been a key driver of growth and success for Grid Dynamics, and we are excited to share the recent developments. As part of our generative AI offering, the researchers from Grid Dynamics Labs partner with our customers to employ large language models and text-guided image generation to the applications in product design, wealth management, data harmonization, and customer support. For the Domain Solutions, we released our Inventory Allocation Optimization Solution and we continue to strengthen our portfolio of Supply Chain Analytics and Order Management offerings. We continue to expand and deepen our service offering and partnerships in the semantic search and composable commerce space with starter kits and accelerators that enable our customers to quickly and easily implement these cutting-edge technologies.
- Delivery Location support:** In the first quarter, our delivery operations remained flawless. Like previous quarters, clients continue to support our geographic diversification and choice of locations for engineering support. We have not shifted any of our existing programs to our competitors or have witnessed our client's terminating business with us due to concerns around delivery locations and our ability to meet product and project deadlines. For new clients, they have a choice of our 13 countries where we can deliver projects at scale. As we look further into 2023, we believe these trends will continue to persist and continue to be bullish on our prospects with new customers.
- Europe Business:** During the quarter, we made good progress in expanding our European footprint. In cybersecurity space, we designed and delivered a single-sign-on (SSO) connector for a cloud-native order management system company. For a leading cybersecurity company specializing in passwordless solutions, we supported their cloud-based products to scale and serve large enterprises. On the digital commerce front, we are leading several modernization initiatives in collaboration with multiple MACH Alliance partners. Examples include transformation from a

monolithic to a composable architecture for a global footwear brand and a UK-based luxury brand.

- Partnership:** Partnerships continue to be an important part of our growth and have become a significant contributor to lead generation. During the quarter we made progress with our Tier 1 partnership players with more competencies and certifications. A significant portion of our new enterprise clients came from our partnerships. With AWS, we qualified for a program that allows us access to large cloud migration initiatives by Amazon. With Microsoft Azure, we qualified for new specializations that will result in access to new clients and opportunities. Our partnerships will focus on building alliances with companies that will enable faster transition of enterprises to composable and intelligent architectures in areas of innovation like Digital Commerce and Supply Chain. Following this strategy, we established new partnerships with a marketing software platform and supply-chain platform during the quarter.
- M&A:** On April 18th 2023 we announced the acquisition of NextSphere Technologies based out of Tampa Florida with delivery locations in Hyderabad and Chennai, India. This comes close to our acquisition of Mutual Mobile in December 2022. NextSphere is an end-to-end custom engineering software company with 18 years of experience of serving clients across industries. The company has built a good reputation and proven track record across the Healthcare, Fintech, and CPG & Manufacturing. These industries are key to Grid Dynamics' GigaCube strategy of diversifying and growing to a billion-dollar revenue company. It also added 200 plus employees to our operations. We are excited about the cross-selling opportunities and expect to leverage each other's customer base. Beyond NextSphere Technologies, our pipeline for M&A opportunities is robust and we will work actively to explore multiple opportunities. As we have highlighted in the past, our M&A focuses on capabilities, key customers, and delivery locations.

During the quarter, Grid Dynamics delivered some notable projects.

For a global technology company, we built a quality monitoring application which enabled their engineers to quickly develop new features with high quality, improved user experience, and enhanced maintainability of existing solutions. By utilizing a modernized codebase, this application increased test coverage and introduced advanced capabilities. We expect this solution will allow our client to deliver new features with faster time-to-market and achieve higher end-user satisfaction.

For a leading financial and investment service company, Grid Dynamics developed a new rebalancing application which was used to adjust a portfolio's asset allocation to the levels defined by an investment plan. Sophisticated mathematical algorithms were implemented for the optimization of rebalancing results. Our solution helped this client to reduce the rebalancing time from days to minutes while still achieving the same excellent performance.

At a major automotive manufacturer, we participated in launching a cloud-based foundation platform for the client's ecommerce channel. This platform aims to establish a unified global approach to reinforce the brand's image and provide an optimal shopping experience with consistent product information and pricing. We expect it to serve as a foundation for other strategic initiatives, such as direct-to-consumer sales of zero emission vehicles.

For a multinational food and beverage company, Grid Dynamics selected technology and developed a computer vision mobile application for inventory management and competitor analysis for use by merchandisers. Built off tailored Machine Learning models, this solution is able to process images on the edge with mobile devices in offline mode reducing cloud consumption costs. After a successful rollout in certain markets, this mobile application has been approved for a global rollout.



I wanted to bring investor attention to three important points. First, over the past 15 plus years, we have seen multiple economic cycles. With every economic cycle, Grid Dynamics has been a net beneficiary of its customer's wallet share and this economic cycle is no exception. Second, our current pipeline of new client engagements continues to be strong. We started the year with nine enterprise clients that we expect to ramp meaningfully over the time. For the remainder of 2023, I am bullish on our new client opportunities. And finally the third, we have operationalized our GigaCube initiative and see a clear path towards continued growth.

Now let me turn the call over to Anil, who will discuss Q1 results in more detail.
Anil?

Anil Doradla, Chief Financial Officer

Thanks, Leonard. Good afternoon everyone.

Revenue commentary

Our first quarter revenue of \$80.1 million was slightly higher than our guidance range of \$78 million to \$80.0 million and was up 12.1% on a year-over-year basis. On a constant currency basis, our year over year growth was 13.7%. The 160 bps headwind to revenue growth on a year over year basis was due to the strengthening of the dollar relative to the Euro and British Pound. During the quarter, we witnessed growth from existing customers as well as new logo revenue contributions offset by macro-driven caution from others.

TMT, our largest vertical represented 33.5% of our first quarter revenues and decreased (1.3) % on a sequential basis and grew 25.0% on a year over year basis. On a sequential basis, we witnessed some caution at some of our TMT customers. This was offset by growth, both from existing and new logos.

During the first quarter, retail, our second largest vertical representing 31.7% of our revenues, decreased (1.0) % on a sequential basis and grew 9.0% on a year over year basis. Within the retail vertical, on a sequential basis, we witnessed growth from areas such as home improvement and specialty retail, offset by softness at brick-and-mortar department stores.

Here are the details of the revenue mix of other verticals. Our CPG & Manufacturing represented 15.8% of our revenue in the first quarter and decreased (10.2) % on a sequential basis and (15.6) % on a year-over-year basis. The decline on a sequential basis came from our large customers as they readjusted their spending levels to the current macro environment. Finance represented 8.1% of revenue and increased 4.3% on a sequential basis and was up 43.9% on a year over year basis. The growth in the quarter came from our banking customers where we continued to grow with their programs tied to wealth management. And finally, the other segment represented 10.9% of our first quarter revenue and was up 17.5% on a sequential basis. The strong sequential growth was driven by our healthcare and pharma customers.

Headcount Commentary

We exited the first quarter with a total headcount of 3,744 down from 3,798 employees in the fourth quarter of 2022 and up from 3,671 in the first quarter of 2022. The sequential decrease of 54 employees or (1.4) % was largely due to our efforts in rationalizing our non-engineering headcount. The increase from 2022 was largely due to a combination of improving demand resulting in headcount increase combined with our acquisitions.

At the end of the first quarter of 2023, our total US headcount was 304, or 8.1% of the company's total headcount. This was slightly down from 8.9% in the fourth quarter and 8.7% in the year ago quarter. The sequential and year over year decline as a percentage of the total headcount was largely driven by growth at our offshore locations resulting in greater mix of non-US headcount. Our non-US headcount,



located in the Central and Eastern Europe, India, UK, the Netherlands and Mexico and “other” locations was 3,440, or 91.9%.

Customers

In the first quarter, Revenues from our top 5 and top 10 customers were 40.8% and 60.4%, respectively, versus 42.8% and 58.3% in the same period a year ago, respectively.

During the first quarter, we had a total of 220 customers up from 218 in the fourth quarter and 213 in the year ago quarter. During the quarter we witnessed growth in new logos from our organic enterprise business. As a reminder, we only count the revenue-generating customers in the quarter and do not include customers who were inactive during the quarter.

P&L Commentary – GM, EBITDA, and EPS

Moving to the income statement, Our GAAP Gross Profit during the quarter was \$28.6 million, or 35.7%, versus \$32.3M or 40.1% in the fourth quarter of 2022 and up from \$26.8 million, or 37.5% in the year ago quarter. On a non-GAAP basis, our GM was \$29.0 million or 36.3% versus \$32.7 million or 40.6% in the fourth quarter of 2022 and up from \$27.0 million or 37.8% in the year ago quarter. The decline in GM% on sequential basis, both on a GAAP and non-GAAP basis was largely due to higher levels of bench.

Non-GAAP EBITDA during the first quarter that excluded stock-based compensation, depreciation and amortization, restructuring and expenses related to geographic reorganizations, transaction and other related costs was \$10.8 million or 13.5% versus \$16.5M or 20.5% in the fourth quarter and down from \$11.4 million or 15.9%, in the year ago quarter. The sequential decrease in non-GAAP EBITDA was largely due to a combination of lower levels of GM% combined with higher operating expenses. On the operating expense front, most of the increase relative to the fourth quarter was from the acquisition of Mutual Mobile.

Our GAAP net loss in the first quarter totaled a \$(8.0) million or a \$(0.11), based on a share count of 74.5 million shares, compared to the fourth quarter loss of \$(6.7) million or \$(0.09) based on a share count of 74 million and a loss of \$(2.7) million or \$(0.04) per share based on 66.9 million shares in the year ago quarter. The year-over-year increase in GAAP net loss was largely due to higher levels of stock based compensation and higher operating expenses offset by higher levels of revenue. On a non-GAAP basis, in the first quarter our non-GAAP-NI was \$6.5 million, or \$0.08 per share based on 77.1 million diluted shares, compared to the fourth quarter non-GAAP NI of \$10.5 million or \$0.14 per share based on 76.5 million shares and \$6.9 million or \$0.10 per diluted share based on 70.2 million diluted shares in the year ago quarter. The decrease in the non-GAAP NI in comparison to the year ago quarter was largely from of higher levels of revenue partially offset by higher operating expenses.

Balance Sheet

On March 31, 2023, our Cash and cash equivalents totaled \$258.4 million, up from \$256.7 million in the fourth quarter of 2022. The key reason for the increase on a sequential basis was increase in operating cash flows offset by payments from net share settlement of vested stock awards.

Q2 Guidance

Coming to the second quarter guidance, we expect revenues to be in the range of \$76 million to \$78 million. We expect our Non-GAAP EBITDA in the second quarter to be in the range of \$10 million to \$11 million.

For Q2 2023, we expect our basic share count to be in the range of 75 to 76 million shares and our diluted share count to be in the range of 78 to 79 million.

That concludes my prepared comments. Bin, we are ready to takes question.

Questions and Answers

Bin Jiang: Thank you, Neil. As we go to the Q. And a. Session, I will first announce your name. At this point please unmute yourself internally. Camera. Our first question comes from the line of Josh Singhler from Cantor Fitzgerald. The line is open. Josh.

Josh Siegler @ Cantor Fitzgerald: Yes, Hi, Leonard! Hi, Neil! Thanks for taking my questions today. Great to see that 9 new enterprise customers come in. As we progress through 2023, how are you thinking about the balance between increasing wallet share with existing clients versus going out and winning new Logos?

Leonard Livschitz: All right, Thank you, Josh. So the new clients. It's a good news for us. It's been going on for a while. Our strategic focus on our domain expertise, which is the part of the our GigaCube strategy is paying off, as well as our partnerships. So, I feel confident in our growth business, and acquisition of new enterprise clients. When it comes to the wallet share with existing customers, I would say this is more driven by the customer budgets. I haven't seen a decline in the wallet share in terms of a business where we are really participating, but also seen the mixed positioning of the clients in terms of getting into the new business budgets. So I would say I'm very confident on the growth of the new accounts. We'll have to see how the current existing business will continue to expand.

Josh Siegler @ Cantor Fitzgerald: Understood? That's that's helpful color. And then, you know, given the more cautious spending environment specifically for cyclical verticals is your sales team actively spending more time targeting the more secular verticals, and you expect them to become a larger and larger part of the mix moving forward?

Leonard Livschitz: Well, yes, you always treat your customers with respect of the historic positioning, right? So when it comes to the new clients, as you can see, we expanded beyond our traditional CPG retail business quite actively. There is more work driven by Fintech, the Manufacturing segment, we see more what you had discussed before, Pharmaceutical, there are more notable research work driven by a cyber security, and Generative AI, and all the good stuff. With existing customers. there is a little bit of a I would say, uncertainty across all the segments. I think it's driven by the leadership. You know, from the old time you look at the leaders in each corresponding sectors, you're stronger, and they invest more. The companies who are maybe in a little bit less strong position, they're getting a little bit of jittery. So yes, of course, we focus on a global footprint wages from traditional business. But if you look at generally a commerce perspective and our minimized a brick and mortar business, I would say that even the traditional B2C business is continuing to be viable. But of course B2B become more and more critical.

Josh Siegler @ Cantor Fitzgerald: Yeah, understood. Thank you very much, Leonard.

Leonard Livschitz: Of course.

Bin Jiang: Thank you, Josh. Our next question comes from the line of Mayank Tandon from Needham. Please go ahead.

Mayank Tandon @ Needham: Thanks, Bin. Good evening, Leonard, and Anil. I wanted to just start with your guidance on 2Q calls for a modest sequential decline. And I know you're not giving guidance for the full year, but just any color on what you might expect in the back half of the year given client visibility, and the interest from them on pursuing their digital transformation engagements. If the macro conditions don't worsen from here is there an expectation that we could actually see subsequential growth in the back half of 2023.

Leonard Livschitz: Yes, I thank you for asking the question. Obviously the last line of Anil's prepared remarks are probably the most noticeable, right. So if you read the guidance for Q1. We'll have our end of the year reporting, I would say, the closer to the end of the quarter. And we try to play the fair game to be as accurate as we can. Now, you know, when you have more disparity it's a bit difficult, but we kind of been right there. When we look at the Q2 with the for the subsequent quarter, we had an internal discussion on where we're gonna be in terms of guidance. We're still 2 months, almost 2 months away from the end of the quarter, and some of our clients are heading the Budgetary Year. Starting around June July. In the past more traditional years, the stability and forecasting of the business usually ends around, you know, early year, right. Even for the customers who's budget their year starts first of the year, they're usually completed by November. This year, we've seen quite a variety of the of the decisions. It's not a pushback. It's basically, it's unclarity. And unclarity made us to be a little bit more conservative. So saying that we are quite confident in a business acquisition what sometimes happen. Some of the business, suddenly brings up more, which is happening, and some of the business as suddenly has a little bit of a delay of the budget. So we decided that for sake of being conservative and fair to you guys into the market, we wanted to be a little bit more conservative on the revenue. If you notice we have not reduced the guidance on a our profit. One more thing about the notable guidance for the year. I think some of the investors are a little bit confused. We have never gotten into guidance the full year since we started the company. That's how it works for the Covid days and other things. We may get to that point at one point of time, but we have not suspended any guidance. We just fielded in our line of business, we are more accurate and more, I would say, responsible for guiding quarter of a time at this moment.

Mayank Tandon @ Needham: Understood. Well, let me ask you this. So if conditions do get worse, is there leverage in the model that you can hold to protect profitability? In other words in terms of gross margins and EBITA margins, do you have the ability to manage probability in the midst of a continued revenue pressures?

Leonard Livschitz: Well, it's not the first downturn in the world. We always stay profitable. The foundation of the business is the balance between investment and fiscal responsibility. Right? So, I'm not just talking about the margin play. I'm talking about the cash flow play. Again, we have a very significant amount of the cash in the balance sheet. But that's really for more strategic acquisition perspective, not for the sponsoring the business. So one of the elements, or I would say the the dials, are how much investment into the GigaCube 1 billion dollar strategy we have. Right? So on the engineering perspective, we're very comfortable. We maintain some bench, we train people. On the overhead perspective, there is a little bit of imbalance sometimes, because we move into broader regions. Ah, we, you know we had to invest into India and some of the other European countries, and Mexico. So we take an audit of it, So when you see the reduction, some downturn to the total headcount, that's a result of more efficient operation of the non-engineering workforce. The other dials are investment into sales and technology. Technology organization is our absolute foundation of the DNA. And I'm preserving it to even through the downturns. Right? So we bring more projects, more accelerators, more innovations. And you know now everybody jumping on a Generative AI, we've been doing work in the in this field for years, so we're doing the actual commercial projects without creating a lot of excitement. We just make money on that, Right? So yes, there is a risk always about a further potential downturn in the market. We have balancing those kind of elements, but the core of the company, preserving the educated technology team, scaling the Indian business, adding more solutions with a, I would say more with a fewer on the technology side, and having a strong ties with the clients. One more important notable thing is, because our strength is in the consultancy of the technology relation with the customers, kind of end of Covid, gave us a little bit more benefit. Because now we're spending more time with the clients face-to-face. We're able to resolve some of those issues in real-time, of course, in some cases, as you probably mentioned, there was some discounts associated with the projects, but only in a very strategic manner when we see a growth after the some of those relationships been established. I hope I gave you very comprehensive answer.

Mayank Tandon @ Needham: Very helpful. Thank you so much.

Leonard Livschitz: Of course.

Bin Jiang: Thanks for your question. Next question comes from Puneet Jain, from JP Morgan. Please go ahead.

Puneet Jain @ JP Morgan: Hey! Thanks for taking my question. Are you seeing any changes to the competitive intensity in the industry? Maybe some of your peers, other vendors, are more hungry for growth and might be using pricing as a level. Broadly, like is pricing like, What do you expect for pricing? Is it like enough to offset wage inflation and other margin events over the near term?

Leonard Livschitz: Our main competitor is VMO. Vendor Management Organization, right? So all our clients, all our engineer organization, all the business organization, they're fully aligned with Grid Dynamics' strategy. And that's our, It always remains our strength. We move from people from one region to another region, and yet that kind of DNA relationship stays. When it comes to vendor management, they typically having their decision coming all the way from the top. When it's purely financial, then, of course, rate card plays its role. Ah it, it plays its role in some short term decisions. In some decisions very short term, like instantaneous decisions. And then the people come back because the value is still preserved. I think one of our defense mechanism is continue to bring more fixed bid and pod related projects. Also this Follow-the-Sun strategy is paying out. So where we see that there is need to be more scale in terms of the organization, we adding people from the regions we have not been present before, like you know, Mexico, and especially India. And India is going nicely, too. But again, we in no form or shape, even under pressure, we're not positioning ourselves as a commodity business. It's a it's a spiral. Sometimes you're listening to plans. Oh, my God, you know it's all temporary, you know. Just let's give a lot of you know incentives to the client doesn't work, because then you have the conflict with your own methodologies. So yes, we have our competition, and it's vendor management. We are aggressively position ourselves. We'll look at where the purely it's a my, it's a I would say, budget communications. And one of the notable thing you know, Puneet, we have more and more relationship with the C-level clients, you know, representatives. That's a big transformation in the past say 6 to 9 months. We meet not only with the technology leaders, but with the top leaders. The guys who are listed in Bloomberg. You know, and those people sometimes need a little bit of guidance and time to understand their own future to some extent. So yes, they are all kind of things happening, but overall vector is still positive, as I described.

Puneet Jain @ JP Morgan: Got it. And with the second India-based acquisition in recent times, is your India delivery at a point where you can get to the goal of 1,000 or so employees organically from here on? And should we expect like change in a mini focus towards some of these new technology areas, whether it's Generative AI, and whatever, like, are there any even like private companies which are specialists in this generative AI given it's such a new area.

Leonard Livschitz: Okay Puneet. So first part I almost hired you. Second Part I'm not sure. So the first one, I'm 100% with you. I gave a guidance to our Indian team to grow organically. This is 100%. You're very observant. This 1,000 people I mentioned before, it's continued to grow, and we're not just going to do takings for sake of takings. Now to be respectful to both MutualMobile, And you know, NextSphere, they have their core competencies. We're complementing. With the MutualMobile their user experience knowledge is already directly plugged into our clients. NextSphere is a little bit too early to see. However, however, the growth is going to be driven by investment in the core technologies. Now, now, why I've said the second part, not so sure. So the Generative AI, and the whole artificial intelligence research has been a core part of Grid Dynamics for a long time. We are looking for the domain expertise, not technology expertise, when we're looking for M & A. Because the core engineering group is still about mathematics, as you know. And we continue to build this capacity. Rajeev's team is very strong. By the way guys, a little bit of kind of self promotion, in November we'll

have the first Grid Dynamics Conference, Investor Conference. And you know, so I stole a little bit of thunder from Bin. But since we need, you know, you're very important with the question, we'll bring the management team in. And you will have time to face the entire management team in the very, you know, I would say, complete complex dialogue. It's still a few months ahead but I want to make sure that from the strategic M & A perspective Grid Dynamics will continue to use our, you know, balance sheet focused on a core domain, and that's going to be the strategy going forward. So thank you for that question.

Puneet Jain @ JP Morgan: Got it? No, we look forward to attending the event. Thank you.

Bin Jiang: Okay, wonderful. Thank you for your question. Next question comes from Brian Bergen from TD Cowen. Just go ahead

Bryan Bergin @ TD Cowen: all right. Good afternoon, guys. Thank you. First question. Just wanted to dig in on TMT client sentiment. If you can give us a sense on how some of conversations have progressed here in recent weeks, particularly among some of the larger tech clients. I'm curious how prevalent the uncertainty is in that base and how your conversations are informing you on the potential for slower spending and the duration of potentially slower spending in that group.

Leonard Livschitz: Okay? Well. the TMT spectrum is broader, so it's a bit of a bifurcated question. So there are some customers, the few of them very notable one the high level dialogue, and it goes into the Fintech area, and it goes into the technology mainstream area. And we are kind of, I would say, even gaining momentum. Remember when the tough time it's a bit more uncertain, and it's certainly uncertain people see guidance from somebody who they respect for whatever reason it is. So we have very good conversation, but it's not a secret. There are a few guys who, having a bit of a complexity in their own camp. We are patient. We're trying to find the leadership which is going to be a little bit more stable, but in certain cases, with some of the TMT clients when they fire a very large group of FTs they need some time to figure out their own position. So, in one of the early question was the comment, is, what do you guys do with the priorities? Our priority are on the ones who know what they want to do. And with the ones who need a little bit of time, we're in a defense position to make sure that we get there when the time is right, and they're ready for a strategy. But yes, the technology sector, in my view, Grid Dynamics' view is a bit, you know, bifurcated.

Bryan Bergin @ TD Cowen: Okay, okay, makes sense. And then just on the workforce. So you had some comments earlier. Certainly, about protecting that engineering quality that you have. It looks like you did shift into R&D a bit here from an expense space. You just talk about your efforts there and then just give us a sense of your hiring plans over the next couple of quarters.

Leonard Livschitz: Oh, boy, hiring sense. Yeah, we always hiring. This is a this is in a mantra. By the way, it's it's an interesting thing, because you look at the Delta right. So you You're adding new companies, and you use some of your headcount and you balancing right now. So the question is, why a majority of reduction is coming from not engineering. And it may sound, well, did you have so much overhead? No, we don't, but the the war has shifted to tectonically some of those organizations right? And those are not just you know, low number of people. So our first objective was always to save lives of people. But then we need to efficiently operate organization. So as we grow. Obviously, there's investment in India, and there's less investment into some of the non-engineering organization bench or protecting engineers, There are 3 folds. First, number one it to be very clear what bench is. I would say, close to be Billable, and how you get to billability. So our work with the clients continue to be very much on the personal touch, because we want to understand that any kind of short term there are probably Field, and if there is a project which is, then we probably address with the people. so that one has always been going well with Grid. We understand how to manage that. The second part is the R&D accelerators to some extended so delight to Rajeev. We build the core key in the architects which we define. The number of projects which are very critical, as accelerate is going forward, and he never has enough



people. No, it's just, you know, it's a natural that our R&D organization, is a service business, you know. I run large R&D organization and you know, in the product companies. It's a little bit more attention there. Grid Dynamics has a big hybrid of the world. We are very respectful R&D organization. So we tend to take some of the projects and accelerate their evolution to the release. So we even edit a little bit of a program management feature on the all this AI generative stuff on a on a innovative cloud accelerators. We have ton of partnerships, we adding some of those features to all partners.

So I think that those things are addressing number 2. Number 3 is somebody something you know, Brian, Nobody wants to talk about right. It's the old philosophy of 1 2 3, right? Or ABC. We looked at our capability and capacity. And we add some people to the training and the new technologies, the special, the young folks, because we continue to invest into the internship program. But there is some people we need to, you know, and that's usually happens through very careful analytical process, and in a continuous process. So I would not say it's accelerator or something special. But that machine works, and in a full on all this direction. I just described it to you.

Bryan Bergin @ TD Cowen: Okay. Thanks for the detail.

Bin Jiang: Thank you, Brian. Next question comes from Ronnie Potter from Citi. He's correct.

Ryan Potter @ Citi: Hey! Thanks for taking my question I want to start on the the bangy turmoil that was seeing towards the end of the quarter. I know you've mentioned pretty kind of your slides in the past. That Silicon Valley Bank was a a client, so I guess. Has it been any like direct headwinds from the banking terminal that was seen across the Sloven Bank or any other banks. And do you expect any secondary impacts to show up in any of your other client verticals from that pinky turmoil.

Leonard Livschitz: Well not sure the message about Silicon Valley Bank. We have a handful guys working there. It's so immaterial. I didn't, even for a second. I was wondering what you're asking me about. Yes, we have a few people there. They're still there. And you know we have a small project which is going on. We're not gonna get into details on the business. It's a very innovative, very strategic visionary in the bay area, but we have overgrown the Bay Area from very long time ago. Right? So from the priorities of growing business we are now into much larger banking and wealth management and fintech companies, and you probably know one of them. You're sitting there, and we are really into the global situation. Now, i'm not gonna. I'm not going to be an oracle. What's going to happen with regional banking because we have no business there. But My personal opinion is what you see with the banking system which you see with the Federal Reserve, where you see with other things, it's again this jittering to some extent so maybe more as a room or driven than the fact, or even which kind of affects other customers. So some of the I would say pseudo recession or recession fears are been going on for too long. So people just nervous.

Ryan Potter @ Citi: Okay, thanks. I guess. Just shifting to some of your sales. Success. Do you guys, that great? How much of your your growth in one Q is coming from some of your recent Logos that they've one versus the existing clients, and also what's embedded in 2 Q versus like new clients vs existing clients, and how that compares to what you normally see in the past in terms of your growth out of them.

Leonard Livschitz: Well, there's a lot of questions in one question. Okay, let me dissect it. So first on the growth on the new clients versus existing clients. If you noticed in my prepare remark, I mentioned 5, 10,20, So, Ryan, that's not unreasonable to focus on it right now. We always given people, you know our own teams a year to grow to about 2 million dollars business. We see that ramp up as fast. So that's why this kind of covered it. 5, 10,20 is becoming more a mantra for the bit. So yes, recently acquired businesses tend to grow faster so that's one of the key observations that's different from. I would say, from a few years ago. More acquired new businesses tend to be more strategic in terms of their needs. Remember our strategy of for years, and you know you've been part of it was talking about

land and expand. We don't talk about that much anymore, because we're not lending. We're getting into the agreements with the projects from the beginning, so that that's kind of where things. But I think you ask a couple more things. So if you be, you know, kind to just add on, because he's at the end of your question, you asked something else as well.

Ryan Potter @ Citi: no, I think I think you covered it. It's mostly just how much growth is coming from new clients versus to see clients now versus what you historically seen in terms of your new growth.

Leonard Livschitz: Yeah, so I will come in on that a little bit as well. There is more growth in new accounts. There's there's some of the existing costs continue to grow, but many of them right now are in this variable state, so it's kind of up and down. But if you trend with the new required business, the acceleration is more pronounced.

Ryan Potter @ Citi: Got it. Thanks again.

Bin Jiang: Thanks for your question Ryan. Next question comes from Kate Cronston, from William Blair. The line is open.

Maggie Nolan @ William Blair: Hi Leonard Hi Anil thanks for taking my question. Then it' Kate from Blair. My first question was on the pick up on bench this quarter. Was that expected, or was that, did that come as a surprise? Can you dive into that a little bit?

Anil Doradla: Maybe Anil can answer, because we don't have a pick up on bench. I don't know where that comes from, so so I think, Kate, you must be referenced to my comments right when we talked about as we went from Q4 to Q1 Right? Yes. so there. There are a couple of things also going on there, you know, and let me take that question from a gross margin point of view. Perhaps that's where you're going with that. So historically, If you look at the last couple of years right as you go from Q4 to Q1. One, you you might have seen some of that right in Q1 we had, you know we're retaining some of our engineering resources. There's a little bit of a, you know, transition going out, and, as Leonard pointed out, you know we work through some of our non engineering, you know, headcount, too. So there was a little bit some of these interplays work through this, resulting in some of that margin pressure. Now, as we go into Q2, you know, we get into a slightly different part, you know, as in the course of the year. Here you see historically, when you look at our margin trends, you know they move up on the upward trend, and you'll see that trend as we go in the course of the year.

Leonard Livschitz: Okay, so it's more margin than a bench thing. Thank you.

Maggie Nolan @ William Blair: Great. Thank you, Anil, that's helpful. And then my second question is just that India in general it's grown pretty significantly over the past few quarters, and the 2 recent acquisitions only expand that. How are you guys managing that scale? And then, what is the long term value proposition for your operations there?

Leonard Livschitz: Okay? Well, that's that was in kind of debated and discussing the past quarters quite significantly. So of course it's a growth. We had no people in India a year ago, so you know, we grew infinite number of percent points. It's still a relatively small organization. When you look at the the way, how we operate in every region. It's the same business model. Have delivery management, operational management. We have recruited. So all this staffing is done. What benefited us from making those 2 acquisitions, we were able to inherit some additional experience management. So it's not just the headcount engineering, and not just accounts, even though. If somebody would ask me a question. So what's so good about? NextSphere, we keep focus on India, these guys bringing us more into the life science, and you know the medical field as well as the manufacturer. So there is all this, but also the purely good operational experts in delivery and organization. So we need to grow purely, organically. It's a bit of a hidden miss. We are very comfortable with poise for growth. We're adding more staffing



and one more notable thing we started with. Hyderabad organization. We continue to grow it. We mentioned in our remarks that Chennai will become the second growth of the company. Again, For a reason I work with the guys from you know it, IIT Madras, for you know, quarter of a century. It's an excellent position for automotive business which you grow for industrialization, but we also have some people, smaller groups, but also in hand in Bangalore. So I think we a year from now, when we look again in our business positioning. It will be a very substantial portion of our company growth, and we'll truly be to the definition of our follow-the-sun strategy where all 3 regions will be all adequately positions for taking the job around the clock.

Maggie Nolan @ William Blair: Okay, Great. Thank you both.

Leonard Livschitz: Thank you.

Bin Jiang: Thank you, Kate. Ladies and gentlemen, that would all be of the Q&A session for today. I will now pass the call back to Leonard for the closing comment.

CLOSING COMMENTS

Leonard Livschitz, Chief Executive Officer

Thank you everybody for joining us on the call today. As our first quarter results highlighted, we continue to successfully execute our stated goals. With a strong technological foundation and flawless delivery, our value resonates strongly with our clients. I believe 2023 is a pivotal year for the company as we come out stronger from the current economic cycle. We have operationalized our GigaCube initiative and have a clear path towards our stated goal of becoming a billion-dollar-revenue company in the future. I look forward to giving you a business update in August.

Thank you